

Auditing Procedures Report

Reset Form

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Issued under Public Act 2 of 1988, as amended.

Unit Name	MONTMORENCY COUNTY ROAD COMM	County	MONTMORENCY	Type	OTHER	MuniCode	80-0-100
Opinion Date-Use Calendar	Mar 10, 2008	Audit Submitted-Use Calendar	Jun 27, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 2,704,815.00	General Fund Balance:	\$ 559,101.00
General Fund Expenditure:	\$ 2,716,877.00	Governmental Activities Long-Term Debt (see instructions):	\$ 1,195,639.00
Major Fund Deficit Amount:	\$ 0.00		

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	THOMAS	Last Name	ZICK	Ten Digit License Number	1101007478		
CPA Street Address	P O BOX 148	City	LEWISTON	State	MI	Zip Code	49756
CPA Firm Name	THOMAS R ZICK CPA, P C	Unit's Street Address	11445 M-32	City	ATLANTA	LU Zip	49709

MONTMORENCY COUNTY ROAD COMMISSION
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

MONTMORENCY COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS
DECEMBER 31, 2007

Ted Orm
Commissioner

Linda Hicks
Commissioner

Joe LaFleche
Commissioner

Joel Kim Bleech
Secretary/Manager

**MONTMORENCY COUNTY ROAD COMMISSION
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Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

March 10, 2008

Board of County Road Commissioners
Montmorency County
Atlanta, MI 49709

I have audited the accompanying financial statements of the governmental activities and major fund of the Montmorency County Road Commission, a component unit of Montmorency County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Montmorency County Road Commission as of December 31, 2007 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated March 10, 2008, on my consideration of Montmorency County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8, 24 and 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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Montmorency County Road Commission
March 10, 2008

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montmorency County Road Commission's basic financial statements. Other supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Montmorency County Road Commission and has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA P.C." in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MONTMORENCY COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Montmorency County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statement.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the Road commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets were \$13,761,630 at December 31, 2007. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The investment in capital assets, net of related debt, was \$13,396,191 at December 31, 2007. The increase in net assets is primarily the result of reporting infrastructure of \$955,013. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by Governmental Accounting Standards Board (GASB) Statement No. 34 in a previous year.

Net assets as of years ended December 31, 2007 and December 31, 2006 follow:

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>Increase/ (Decrease)</u>
Current and Other Assets	750,995	730,071	20,924
Capital Assets (Net)	14,401,763	14,313,891	87,872
Total Assets	<u>15,152,758</u>	<u>15,043,962</u>	<u>108,796</u>
Long-Term Debt Outstanding	1,015,732	1,184,310	(168,578)
Other Liabilities	375,396	339,151	36,245
Total Liabilities	<u>1,391,128</u>	<u>1,523,461</u>	<u>(132,333)</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	13,396,191	13,132,030	264,161
Restricted	365,439	388,471	(23,032)
Total Net Assets	<u>\$ 13,761,630</u>	<u>\$ 13,520,501</u>	<u>\$ 241,129</u>

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2007 and December 31, 2006 follows:

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>Increase/ (Decrease)</u>
Revenues			
Licenses and Permits	\$ 36,661	\$ 46,097	\$ (9,436)
Federal Grants	46,464	1,038,944	(992,480)
State Grants	2,360,838	2,628,594	(267,756)
Contributions from Local Units / Others	246,744	276,915	(30,171)
Reimbursements/Miscellaneous/Other	3,555	28,101	(24,546)
Interest and Royalties	10,553	13,688	(3,135)
Total Program Revenue	<u>2,704,815</u>	<u>4,032,339</u>	<u>(1,327,524)</u>
Expenditures			
Public Works	2,421,648	2,591,161	(169,513)
Interest Expense	42,038	48,518	(6,480)
Total Expenditures	<u>2,463,686</u>	<u>2,639,679</u>	<u>(175,993)</u>
Increase (Decrease) in Net Assets	<u>241,129</u>	<u>1,392,660</u>	<u>(1,151,531)</u>
Ending Net Assets	<u>\$13,761,630</u>	<u>\$13,520,501</u>	<u>\$ 241,129</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in Operating Fund for the years ended December 31, 2007 and December 31, 2006 is as follows:

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>(Decrease)</u>
Revenues			
Licenses and Permits	\$ 36,661	\$ 46,097	\$ (9,436)
Federal Grants	46,464	1,038,944	(992,480)
State Grants	2,360,838	2,628,594	(267,756)
Contributions from Local Units	246,744	276,915	(30,171)
Reimbursements/Miscellaneous	3,555	28,101	(24,546)
Interest and Rents	10,553	13,688	(3,135)
Total Program Revenue	<u>2,704,815</u>	<u>4,032,339</u>	<u>(1,327,524)</u>

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Public Works	2,680,080	4,185,267	(1,505,187)
Net Capital Outlay	(181,965)	(60,165)	(121,800)
Debt Service	218,762	228,261	(9,499)
Total Expenditures	<u>2,716,877</u>	<u>4,353,363</u>	<u>(1,636,486)</u>
Excess of Revenues Over (Under) Expenditures	(12,062)	(321,024)	308,962
Other Financing Sources (Uses)			
Loan Proceeds	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Financing Sources Over (Under) Expenditures and (Uses)	(12,062)	(321,024)	308,962
Fund Balance - January 1	<u>571,163</u>	<u>892,187</u>	<u>(321,024)</u>
Fund Balance - December 31	<u>\$ 559,101</u>	<u>\$ 571,163</u>	<u>\$ (12,062)</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2007 was \$420,000 lower than the original budget due primarily to a reduction in Federal aid for a project that did not start in 2007 as projected.

The final amended expenditure budget for 2007 was \$420,000 lower than the original budget primarily due to the Road Commission decreasing the budget for Federal projects which were originally expected to be done in 2007. The actual expenditures incurred during 2007 were less than the final amended budget by \$301,623.

Capital Assets

As of December 31, 2007 and December 31, 2006, the Road Commission had invested \$14,401,763 and \$14,313,891 respectively in net capital assets.

A summary of capital assets follows:

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>Increase/ (Decrease)</u>
Capital assets not being depreciated:			
Land and Improvements	\$ 17,476	\$ 17,476	\$ -
Infrastructure and Land Improvements	<u>7,596,630</u>	<u>6,862,154</u>	<u>734,476</u>
Subtotal	<u>7,614,106</u>	<u>6,879,630</u>	<u>734,476</u>
Capital assets being depreciated:			
Buildings	1,999,378	1,999,378	-
Equipment - Road	2,848,160	2,847,050	1,110
Equipment - Shop	42,004	42,004	-
Equipment - Office	47,710	39,801	7,909
Equipment - Engineering	7,235	7,235	-
Depletable Assets	83,640	83,640	-
Infrastructure - Bridges	2,098,789	2,098,789	-
Infrastructure - Roads	<u>8,094,698</u>	<u>7,874,161</u>	<u>220,537</u>
Subtotal	<u>15,221,614</u>	<u>14,992,058</u>	<u>229,556</u>
Total Capital Assets	<u>22,835,720</u>	<u>21,871,688</u>	<u>964,032</u>
Total Accumulated Depreciation	<u>8,433,957</u>	<u>7,557,797</u>	<u>876,160</u>
Total Net Capital Assets	<u>\$ 14,401,763</u>	<u>\$ 14,313,891</u>	<u>\$ 87,872</u>

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$220,537. The infrastructure recorded, during 2007 will be depreciated in following years. The infrastructure is financed through Federal, State and local contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by GASB 34 in a prior year.

This year's major capital asset additions included the following:

Various equipment	\$ 9,019
Various Resurfacing Projects and Related Costs-Infrastructure	<u>955,013</u>
Total Additions	<u>\$ 964,032</u>

There were no installment purchase agreements entered into during 2007. Details of prior installment debt is shown in Note J to the financial statements.

Debt

At the year end, the Road Commission had \$630,000 in bonds and \$375,572 in installment debt, a decrease of \$176,289 from 2006. The bonds were payable over an nine year period with a final payment due November 1, 2013. Other long-term debt is accrued vacation and sick pay leave.

In 2007, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Economic Factors and Next Year's Budget

The Board of County Road Commissioners, along with the Road Commission's fiscal and chief administrative officers, considered many factors when setting the calendar year 2008 budget. These factors included the economy, township contributions, interest rates and various others. We are projecting no increase in revenue over the year 2008, with no major increase in expenses.

This financial report is designed to provide the public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Montmorency County Road Commission's administrative offices at 11445 M-32, Atlanta, MI 49709 or call 989-785-3334.

MONTMORENCY COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

ASSETS

Cash demand and time deposits	\$ 117,006
Accounts receivable:	
Michigan Transportation Fund	340,800
Sundry Accounts	6,944
Inventories	
Road Materials	162,851
Equipment Parts and Materials	97,407
Prepaid expenses	25,987
Capital Assets (Net of Accumulated Depreciation)	<u>14,401,763</u>

TOTAL ASSETS	<u>\$ 15,152,758</u>
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LIABILITIES

Current Liabilities

Account payable	49,345
Accrued liabilities	56,144
Deferred Revenue - Township Advance	90,000
Current Portion - Long-Term Debt	179,907

Noncurrent liabilities:

Bonds payable	535,000
Vested employee benefits payable	190,067
Installment loans payable	<u>290,665</u>

TOTAL LIABILITIES	<u>1,391,128</u>
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NET ASSETS

Invested in capital assets, net of related debt	13,396,191
Restricted for County Roads	<u>365,439</u>

TOTAL NET ASSETS	<u>\$ 13,761,630</u>
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See Notes to Financial Statements

**MONTMORENCY COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Program Expenses	
Primary Road Maintenance	\$ 935,950
Local Road Maintenance	1,248,162
Net Equipment Expense	(54,679)
Net Administrative Expense	280,810
Compensated Absences	11,405
Interest Expense	<u>42,038</u>
Total Program Expenses	<u>2,463,686</u>
Program Revenue	
License and Permits	36,661
Federal Grants	46,464
State Grants	2,360,838
Contributions From Local Units/Other	246,744
Investment Earnings	10,553
Reimbursements/Miscellaneous/Other	<u>3,555</u>
Total Program Revenue	<u>2,704,815</u>
Net Program Revenue	<u>241,129</u>
Change in Net Assets	241,129
Net Assets	
Beginning of Year	<u>13,520,501</u>
End of Year	<u>\$ 13,761,630</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY ROAD COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2007**

	<u>General Operating Fund</u>
ASSETS	
Cash Demand and Time Deposits	\$ 117,006
Accounts Receivable:	
Due from State	340,800
Sundry	6,944
Inventories	
Road Materials	162,851
Equipment Parts and Materials	97,407
Prepaid Expenses	<u>25,987</u>
 TOTAL ASSETS	 <u>\$ 750,995</u>
 LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	\$ 49,345
Accrued Liabilities	52,549
Township Advances - Deferred Revenue	<u>90,000</u>
 TOTAL LIABILITIES	 191,894
 FUND EQUITY	
Fund Balance	
Undesignated	<u>559,101</u>
 TOTAL FUND EQUITY	 <u>559,101</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 750,995</u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
Reconciliation of Fund Balances on the Balance Sheet
to the Statement of Net Assets
DECEMBER 31, 2007

Total Governmental Fund Balance	\$ 559,101
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets at cost	22,835,720
Accumulated depreciation	(8,433,957)
Installment debt - not due and payable in current year and is not reported in the funds	(375,572)
Accrued interest on bonds payable is not included as a liability in the funds	(3,595)
Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(630,000)
Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds	<u>(190,067)</u>
Net Assets of Governmental Activities	<u>\$ 13,761,630</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General <u>Operating Fund</u>
REVENUES	
Licenses and Permits	\$ 36,661
Federal Grants	46,464
State Grants	2,360,838
Contributions From Local Units / Other Contributions	246,744
Interest, Rents, and Royalties	10,553
Other Revenue	<u>3,555</u>
 TOTAL PROGRAM REVENUE	 2,704,815
EXPENDITURES	
Public Works	2,680,080
Net Capital Outlay	(181,965)
Debt Service	<u>218,762</u>
 TOTAL EXPENDITURES	 <u>2,716,877</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (12,062)
 FUND BALANCE - BEGINNING OF YEAR	 <u>571,163</u>
 FUND BALANCES, END OF YEAR	 <u>\$ 559,101</u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	(12,062)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay		964,032
Deduct - Depreciation Expense		(876,160)

Repayment of installment loan principal is an expenditure in the governmental fund but reduces long-term liabilities in the Statement of Net Assets		81,289
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Repayment of bonded debt is an expenditure in the governmental fund but reduces long-term liabilities in the Statement of Net Assets		95,000
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Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statements

Less - increase in vested employee benefits		(11,405)
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Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statement

Plus - decrease in accrued interest payable		435
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Change in Net Assets	\$	<u>241,129</u>
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See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Montmorency County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Montmorency County Road Commission.

REPORTING ENTITY

The Montmorency County Road Commission, which is established pursuant to the County road Law (MCL 224.1), is governed by a 3 member board of county road commissioners elected by the voters of the county. The Road Commission may not issue bonded debt without the County's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the governmental Accounting Standards Board (GASB) Statement NO. 14, "The Financial Reporting entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montmorency County Road Commission, a discretely presented component unit of Montmorency County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of County road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation - Government-Wide financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Montmorency County Road commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation - Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus/Basis of Accounting - Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Measurement Focus/Basis of Accounting-Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements. Prepaid insurance is the item recorded for 2007.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Montmorency County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Montmorency County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets, as required by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years	Shop Equipment	10 years
Road Equipment	5 to 8 years	Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years	Infrastructure - Roads	8 to 30 years
Infrastructure - Bridges	12 to 50 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change - Effective January 1, 2004 the Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic financial Statements - and Management's Discussion and Analysis - for State and Local governments (GASB No. 34)*, along with all related statements and interpretations. Changes to the Road Commission's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Road Commission's overall financial position and results of operations has been included.

Basic financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for the operating fund has been provided.

Capital assets in the statement of net assets includes assets totaling \$14,401,763 not previously accounted for by the Road Commission in its operating fund. This includes \$12,228,672 of infrastructure which is further explained under the capital assets caption.

The statement also includes bonds and other long-term obligations totaling \$1,195,639 previously reported in the General Long-term Debt Account Group.

The operating fund now accrues a liability for compensated absences. At December 31, 2007 that amount was \$190,067.

NOTE B - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2007 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts budgeted as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Local Road:			
Maintenance	\$ 850,000	\$ 947,088	\$ (97,088)
Administrative Expense - Net	\$ 270,000	\$ 280,810	\$ (10,810)
Capital Outlay - Net	\$ (195,000)	\$ (181,965)	\$ (13,035)

In total actual expenditures were \$301,623 less than the budgeted amount.

NOTE C - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest cash	\$ 200	Imprest cash	\$ 200
Cash demand and time deposits	116,806	Savings Account	114,806
		Checking Accounts	2,000
Total	<u>\$ 117,006</u>		<u>\$ 117,006</u>

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE C - CASH AND INVESTMENTS (CONTINUED)

DEPOSITS - At year-end the carrying amount of the Road Account deposits was \$116,806 and the bank balance was \$124,716. These funds are 98.3% insured by the Federal Deposit Insurance Corporation.

Investments - Act 217, PA 1982, authorized the Commission to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Road commission has no investments at December 31, 2007.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest Rate Risk – The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial Deposit Credit Risk – Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end \$14,806 of the Commission's bank balance of \$116,806 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE D- POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to pension benefits described in Note I, the Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$519 per month would be paid towards health insurance coverage for any retired employee. During 2007, five retirees received this benefit and approximately \$31,186 in premiums were paid on their behalf.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE E - CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balance 1/1/2007	Additions	Disposals	Balance 12/31/2007
Capital assets not being depreciated:				
Land and Improvements	\$ 17,476	\$ -	\$ -	\$ 17,476
Infrastructure and Land Improvements	<u>6,862,154</u>	<u>734,476</u>	<u>-</u>	<u>7,596,630</u>
	<u>6,879,630</u>	<u>734,476</u>	<u>-</u>	<u>7,614,106</u>
Capital assets being depreciated:				
Buildings	1,999,378	-	-	1,999,378
Equipment - Road	2,847,050	1,110	-	2,848,160
Equipment - Shop	42,004	-	-	42,004
Equipment - Office	39,801	7,909	-	47,710
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure - Bridges	2,098,789	-	-	2,098,789
Infrastructure - Roads	<u>7,874,161</u>	<u>220,537</u>	<u>-</u>	<u>8,094,698</u>
Subtotal	<u>14,992,058</u>	<u>229,556</u>	<u>-</u>	<u>15,221,614</u>
Accumulated Depreciation:				
Buildings	329,996	43,765	-	373,761
Equipment - Road	2,257,281	140,643	-	2,397,924
Equipment - Shop	29,882	3,107	-	32,989
Equipment - Office	31,503	2,755	-	34,258
Equipment - Engineering	4,925	715	-	5,640
Depletable Assets	27,940	-	-	27,940
Infrastructure - Bridges	441,933	58,841	-	500,774
Infrastructure - Roads	<u>4,434,337</u>	<u>626,334</u>	<u>-</u>	<u>5,060,671</u>
Subtotal	<u>7,557,797</u>	<u>876,160</u>	<u>-</u>	<u>8,433,957</u>
Net Capital Assets Being Depreciated	<u>7,434,261</u>	<u>(646,604)</u>	<u>-</u>	<u>6,787,657</u>
Total Net Capital Assets	<u>\$ 14,313,891</u>	<u>\$ 87,872</u>	<u>\$ -</u>	<u>\$ 14,401,763</u>

Depreciation expense was charged to operations as follows:

Primary	\$ 384,101
Local	301,074
Equipment	187,515
Administration	<u>3,470</u>
Total depreciation	<u>\$ 876,160</u>

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE F - EQUIPMENT LEASES

The Road Commission has entered into long term equipment leases as follows:

<u>Equipment Item</u>	<u>Lease Date</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>	<u>Guaranteed Purchase Amount</u>
CAT 950GII Wheel Loader	11/15/05	11/15/11	\$ 1,452	77,452
CAT 928G Wheel Loader	09/15/05	09/15/11	825	50,825
CAT 930G Wheel Loader	09/15/05	09/15/11	824	57,324
CAT 140H Motor Grader	12/15/05	12/15/11	1,627	101,627
CAT 140H Motor Grader	11/15/05	11/15/11	1,579	101,579
CAT 143H Motor Grader	09/15/05	09/15/11	1,404	101,404
CAT 613 Scraper	07/20/99	05/08/08	<u>2,758</u>	-0-
			<u>\$ 10,469</u>	

NOTE G - FEDERAL REVENUE/GRANTS

The accompanying financial statements reports federal revenue for the year ended December 31, 2007 as \$46,464. All of this revenue was for contracted projects paid for and administered by the Michigan Department of Transportation. These contracted projects are not subject to A-133 single audit requirements at the individual road commission level, as they are included in the MDOT's single audit. A single audit is not required at Montmorency County Road Commission for the fiscal year ended December 31, 2007 because there was only \$16,457 subject to A-133 requirements.

NOTE H - RISK MANAGEMENT

Montmorency County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between Municipal Corporations (inter-local agreements) to form group self-insurance pools.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, vehicle liability coverages, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Montmorency County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, vehicle and equipment liability, bodily injury, property damage and personal injury liability. The Pool agreement provides that it shall be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance based upon limits determined by the Pool Board of Directors.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE I - PENSION PLAN

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. The total contribution to the plan for 2007 was \$51,440.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE I - PENSION PLAN (CONTINUED)

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2007	\$ 1,456,756
Employer Contributions	51,440
Employee Contributions	46,019
Net Investment Earnings and	
Market Value Increase	179,585
Administrative Fees	(11,787)
Distributions / Withdrawals	(97,014)
Total Plan Assets at	
December 31, 2007	<u>\$ 1,624,999</u>

NOTE J - CHANGES IN LONG-TERM DEBT

<u>Description</u>	<u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2007</u>
Installment Loans:				
Citizens Bank	\$ 359,708	\$ -	\$ 54,635	\$ 305,073
Komatsu Dozer	58,094	-	15,709	42,385
Etnyre Trailer	31,844	-	8,615	23,229
Ford Credit – Van	7,215	-	2,330	4,885
Series 2003 Bond Issue	725,000	-	95,000	630,000
Compensated Absences (1)	<u>178,662</u>	<u>11,405</u>	<u>-</u>	<u>190,067</u>
Total	<u>\$ 1,360,523</u>	<u>\$ -</u>	<u>\$ 176,289</u>	<u>\$ 1,195,639</u>

(1) Compensated absences are recorded as a net addition or deduction.

Annual Debt Service Requirements for Long-Term Debt:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 179,907	\$ 188,288	\$ 180,832	\$ 169,740	\$ 171,805	\$ 115,000	\$ 1,005,572
Interest	36,243	29,764	22,887	16,464	9,931	4,485	119,774
Total	<u>\$ 216,150</u>	<u>\$ 218,052</u>	<u>\$ 203,719</u>	<u>\$ 186,204</u>	<u>\$ 181,736</u>	<u>\$ 119,485</u>	<u>\$ 1,125,346</u>

Installment Loans:

On June 29, 2005 the Road Commission lease/purchased a Komatsu Dozer. Monthly payments of \$1,499 are due beginning August 1, 2005 with a final payment due July 1, 2010. Interest is charged at a rate of 4.50% per annum.

On July 1, 2005 the Road Commission lease/purchased a n Etnyre trailer. Monthly payments of \$818 are due beginning August 5, 2005 with a final payment due July 10, 2010. Interest is charged at a rate of 4.30% per annum.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE J - CHANGES IN LONG-TERM DEBT (CONTINUED)

On October 16, 2005 the Road Commission purchased a Ford van. Monthly payments of \$243 are due beginning November 16, 2005 with a final payment due October 16, 2009. Interest is charged at a rate of 9.4% per annum.

On November 2, 2005 the Road Commission purchased three International trucks and related equipment. Citizens Bank financed the transaction in two parts. One part financed the trucks and the other portion of the note purchased the attached equipment. Monthly payments of \$3,400 and \$2,339 are due beginning December 15, 2005 with a final payment due November 15, 2012. Interest is charged at a rate of 4.25% per annum.

Series 2003 Michigan Transportation Fund Bond Issue

During 2003 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

	Interest Rate	May 1		November 1	
		Interest	Principal	Interest	Principal
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	2,242	-0-	2,242	115,000
		<u>\$ 40,905</u>	<u>\$ -0-</u>	<u>\$ 40,905</u>	<u>\$ 630,000</u>

Interest rates varied between 2.75% and 3.90% over the remaining life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2007 was \$118,755. Vacation and personal days accumulated created a liability of \$71,312 for a total of \$190,067.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTMORENCY COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget
Licenses and Permits:				
Permits	\$ 40,000	\$ 40,000	\$ 36,661	\$ (3,339)
Subtotal	<u>40,000</u>	<u>40,000</u>	<u>36,661</u>	<u>(3,339)</u>
Federal Aid:				
D Funds / STP Funds	650,000	200,000	30,007	(169,993)
Other	<u>10,000</u>	<u>40,000</u>	<u>16,457</u>	<u>(23,543)</u>
Subtotal	<u>660,000</u>	<u>240,000</u>	<u>46,464</u>	<u>(193,536)</u>
State Aid:				
Engineering	10,000	10,000	10,000	-
Allocation	2,200,000	2,200,000	2,212,159	12,159
Snow Removal	32,000	32,000	32,622	622
Economic Development Funds	<u>267,500</u>	<u>267,500</u>	<u>106,057</u>	<u>(161,443)</u>
Subtotal	<u>2,509,500</u>	<u>2,509,500</u>	<u>2,360,838</u>	<u>(148,662)</u>
Contributions				
Townships	200,000	200,000	188,274	(11,726)
Other	<u>20,000</u>	<u>20,000</u>	<u>58,470</u>	<u>38,470</u>
Subtotal	<u>220,000</u>	<u>220,000</u>	<u>246,744</u>	<u>26,744</u>
Interest and Royalties				
Interest Income	3,000	3,000	5,743	2,743
Royalty Income	<u>3,000</u>	<u>3,000</u>	<u>4,810</u>	<u>1,810</u>
	<u>6,000</u>	<u>6,000</u>	<u>10,553</u>	<u>4,553</u>
Other Revenue:				
Miscellaneous/Salvage Sales	1,000	1,000	3,555	2,555
Sale of Equipment	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>
Subtotal	<u>3,000</u>	<u>3,000</u>	<u>3,555</u>	<u>555</u>
Total Operating Revenue	<u>\$3,438,500</u>	<u>\$3,018,500</u>	<u>\$2,704,815</u>	<u>\$ (313,685)</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget
Primary Road:				
Preservation - Structural Improvement	\$ 1,213,500	\$ 763,500	\$ 759,061	\$ 4,439
Maintenance	850,000	850,000	551,849	298,151
Local Road:				
Preservation - Structural Improvement	200,000	200,000	195,951	4,049
Maintenance	850,000	850,000	947,088	(97,088)
Equipment Expense - Net:				
Direct	1,100,000	1,100,000	493,333	606,667
Indirect			295,732	(295,732)
Operating			227,599	(227,599)
Less:				
Equipment Rental	<u>(1,100,000)</u>	<u>(1,100,000)</u>	<u>(1,071,343)</u>	<u>(28,657)</u>
(1)	<u>-</u>	<u>-</u>	<u>(54,679)</u>	<u>54,679</u>
Administrative Expense - Net:				
Administrative Expense	270,000	270,000	281,080	(11,080)
Less:				
Purchase Discounts	<u>-</u>	<u>-</u>	<u>(270)</u>	<u>270</u>
(1)	<u>270,000</u>	<u>270,000</u>	<u>280,810</u>	<u>(10,810)</u>
Capital Outlay - Net:				
Capital Outlay	5,000	5,000	9,019	(4,019)
Less:			-	
Depreciation	<u>(200,000)</u>	<u>(200,000)</u>	<u>(190,984)</u>	<u>(9,016)</u>
	<u>(195,000)</u>	<u>(195,000)</u>	<u>(181,965)</u>	<u>(13,035)</u>
Debt Service:				
Interest	60,000	60,000	42,473	17,527
Principal	<u>220,000</u>	<u>220,000</u>	<u>176,289</u>	<u>43,711</u>
	<u>280,000</u>	<u>280,000</u>	<u>218,762</u>	<u>61,238</u>
Total Expenditures	<u>\$3,468,500</u>	<u>\$ 3,018,500</u>	<u>\$ 2,716,877</u>	<u>\$ 301,623</u>
(1) Budgeted in total				

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

**MONTMORENCY COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Primary Road <u>Fund</u>	Local Road <u>Fund</u>	County Road <u>Commission</u>	<u>Total</u>
Total Revenues and Other Financing Sources	\$ 1,476,192	\$ 1,218,145	\$ 10,478	\$ 2,704,815
Total Expenditures	<u>1,471,520</u>	<u>1,249,190</u>	<u>(3,833)</u>	<u>2,716,877</u>
Excess of Revenues Over (Under) Expenditures	<u>4,672</u>	<u>(31,045)</u>	<u>14,311</u>	<u>(12,062)</u>
Fund Balance - January 1, 2006	80,981	280,029	210,153	571,163
Optional Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31, 2006	<u>\$ 85,653</u>	<u>\$ 248,984</u>	<u>\$ 224,464</u>	<u>\$ 559,101</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Primary Road <u>Fund</u>	Local Road <u>Fund</u>	County Road <u>Commission</u>	<u>Total</u>
Licenses and Permits:				
Permits	\$ -	\$ 36,661	\$ -	\$ 36,661
Federal Aid:				
D Funds / STP Funds	30,007	-	-	30,007
US Fishery Grant	16,457	-	-	16,457
State Aid:				
Engineering	5,953	4,047	-	10,000
Allocation	1,316,904	895,255	-	2,212,159
Snow Removal	-	32,622	-	32,622
Economic Development Funds	7,502	-	-	7,502
Forest Road funds	98,555	-	-	98,555
Contributions				
Townships	-	188,274	-	188,274
Other Contributions	-	58,470	-	58,470
Interest				
Interest Income	814	2,816	2,113	5,743
Other Revenue:				
Salvage Sales / Miscellaneous	-	-	3,555	3,555
Royalties	-	-	4,810	4,810
Total Revenues	<u>\$ 1,476,192</u>	<u>\$ 1,218,145</u>	<u>\$ 10,478</u>	<u>\$ 2,704,815</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road:				
Preservation Structural Improvements	\$ 759,061	\$ -	\$ -	\$ 759,061
Maintenance	551,849	-	-	551,849
Local Road:				
Preservation Structural Improvements	-	195,951	-	195,951
Maintenance	-	947,088	-	947,088
Equipment Expense - Net	(26,197)	(24,649)	(3,833)	(54,679)
Administrative Expense - Net	150,010	130,800	-	280,810
Capital Outlay - Net	(181,965)	-	-	(181,965)
Debt Service				
Interest	42,473	-	-	42,473
Principal	176,289	-	-	176,289
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 1,471,520</u>	<u>\$ 1,249,190</u>	<u>\$ (3,833)</u>	<u>\$ 2,716,877</u>

See Notes to Financial Statements



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 10, 2008

Board of County Road Commissioners
Montmorency County Road Commission
Atlanta, Michigan 49709

I have audited the component unit financial statements of the governmental activities and major fund of the Montmorency County Road Commission, a Special Revenue Fund of the County of Montmorency, Michigan, as of and for the year ended December 31, 2007 which collectively comprise the Montmorency County Road Commission's basic financial statements, and have issued my report thereon dated March 10, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government and Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County Road Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montmorency County Road Commission's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of the Montmorency County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Montmorency County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Montmorency County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Montmorency County Road Commission's internal control. I consider the following deficiency to be a significant deficiency in internal control over financial reporting:

Establishment and maintenance of internal control over the financial reporting process as defined by Statement on auditing Standards Number 112 requires management to prepare annual financial statements in accordance with GASB Statement Number 34. The Road Commission's auditor prepares these statements.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Montmorency County Road Commission's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is not a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montmorency County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of Montmorency County Road Commission in a separate letter dated March 10, 2008.

This report is intended solely for the information and use of management, the Board of Road Commissioners, the Michigan Department of Treasury, and Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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FINANCIAL AUDIT COMMENTS

March 10, 2008

Board of County Road Commissioners
Montmorency County
Atlanta, MI 49709

In planning and performing my audit of the component unit financial statements of Montmorency County Road Commission, for the year ended December 31, 2007, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control structure. However, I noted certain matters that I feel should be brought to your attention as follows:

INTERNAL CONTROL/SEGREGATION OF DUTIES

There is not adequate segregation of duties in the accounting area. One individual posts all journals. Another individual prepares the general ledger, checks and related check registers, initiates most journal entries, signs all checks, and reconciles all bank accounts.

I recognize that with only two full time individuals working in the accounting area adequate segregation of duties is not only difficult but for all practical purposes impossible. The Board must recognize that all internal controls must be evaluated for cost effectiveness and at this point little can be done to increase the control without a considerable cost increase. The controls which could be added would have to be compared with the costs required to obtain those controls. A review of the bank reconciliations each month by management would strengthen internal accounting control, which is now being done.

GASB #45

For the fiscal year ending December 31, 2009 the road commission will have to be in compliance with the reporting requirements of GASB #45 relating to other post employment benefits, primarily health insurance for retirees. Steps should be taken during 2008 to prepare for this requirement.

This report is intended solely for the information and use of the Montmorency County Road Commission, its management, and the Michigan Departments of Treasury and Transportation and is not intended to be and should not be used by anyone other than these specified parties.

THOMAS R. ZICK CPA, P.C.
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REPORT TO BOARD OF ROAD COMMISSIONERS

March 10, 2008

To the Board of Road Commissioners
Montmorency County Road Commission

I have audited the financial statements of the governmental activities and the major fund of Montmorency County Road Commission for the year ended December 31, 2007, and have issued my report thereon dated March 10, 2008. Professional standards require that I provide you with the following information related to my audit.

My responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated February 8, 2008, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of the Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 8, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Montmorency County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the inventory quantities is based on observation of those inventories. I evaluated the key factors and assumptions used to develop the inventory quantities in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Post employment health care benefits as reported in Note D to the financial statements.
Long-term debt as reported in Note J to the financial statements.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

The completion of my audit was delayed because the confirmation responses from the financial institution were late. The financial institution was in the process of some internal restructuring and the responses were not timely received.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of the audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated March 10, 2008.

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Board of Road Commissioners
March 10, 2008

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to my retention.

This information is intended solely for the use of the Board of Montmorency County Road Commission and management of Montmorency County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA, P.C.", written in a cursive style.

Thomas R. Zick CPA, P.C.